

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
April 26, 2008 Through April 24, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
April 26, 2008 Through April 24, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Graves County Sheriff for the period April 26, 2008 through April 24, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,005,405 for the districts for 2008 taxes, retaining commissions of \$372,468 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,612,616 to the districts for 2008 taxes. Taxes of \$8,150 are due to the districts from the Sheriff and refunds of \$2,434 are due to the Sheriff from the taxing districts.

Report Comments:

- The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid for the period April 26, 2008 through April 24, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

October 30, 2009

GRAVES COUNTY
JOHN L DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period April 26, 2008 Through April 24, 2009

| | County Taxes | Special Taxing Districts | School Taxes | State Taxes |
|--------------------------------------|--------------|-----------------------------|--------------|--------------|
| <u>Charges</u> | | | | |
| Real Estate | \$ 1,068,979 | \$ 1,309,612 | \$ 3,320,278 | \$ 1,435,840 |
| Tangible Personal Property | 108,562 | 146,300 | 306,701 | 313,328 |
| Fire Protection | 967 | | | |
| Fire Dues | | 428,880 | | |
| Current Year Franchise Taxes | 121,251 | 177,051 | 364,510 | |
| Prior Year Franchise Taxes | 11,827 | 14,537 | 31,446 | |
| Omitted Taxes - Clay | 89 | 103 | 345 | 119 |
| Additional Billings | 644 | 1,133 | 2,499 | 871 |
| Clay | 66 | 76 | 255 | 88 |
| Limestone, Sand and Mineral Reserves | 133 | 153 | 516 | 178 |
| Bank Franchises | 96,461 | | | |
| Penalties | 7,743 | 14,403 | 24,377 | 10,840 |
| Adjusted to Sheriff's Receipt | (798) | (1,397) | (1,757) | (3,812) |
| Gross Chargeable to Sheriff | 1,415,924 | 2,090,852 | 4,049,170 | 1,757,452 |
| <u>Credits</u> | | | | |
| Exonerations | 3,964 | 6,248 | 12,651 | 5,285 |
| Discounts | 20,022 | 28,305 | 55,285 | 26,738 |
| Delinquents: | | | | |
| Real Estate | 16,188 | 33,054 | 40,066 | 21,703 |
| Tangible Personal Property | 2,072 | 2,792 | 6,143 | 4,103 |
| Clay | 103 | 119 | 399 | 138 |
| Uncollected Additional Bills | 97 | 151 | 374 | 129 |
| Franchise Taxes: | | | | |
| Delinquent | 1 | 1 | | |
| Uncollected | 3,856 | 4,765 | 13,241 | |
| Total Credits | 46,303 | 75,435 | 128,159 | 58,096 |
| Taxes Collected | 1,369,621 | 2,015,417 | 3,921,011 | 1,699,356 |
| Less: Commissions * | 58,496 | 84,622 | 156,840 | 72,510 |

* See Next Page.

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN L DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period April 26, 2008 Through April 24, 2009
 (Continued)

| | County Taxes | Special Taxing Districts | School Taxes | State Taxes |
|---|-----------------|-----------------------------|-----------------|---------------|
| Taxes Due | \$ 1,311,125 | \$ 1,930,795 | \$ 3,764,171 | \$ 1,626,846 |
| Taxes Paid | 1,307,958 | 1,922,989 | 3,757,821 | 1,623,848 |
| Refunds (Current and Prior Year) | <u>2,062</u> | <u>2,598</u> | <u>7,119</u> | <u>2,826</u> |
| Due Districts or (Refunds Due Sheriff) as of Completion of Audit | <u>\$ 1,105</u> | <u>\$ 5,208</u> | <u>\$ (769)</u> | <u>\$ 172</u> |

* Commissions:

| | |
|----------|--------------|
| 10% on | \$ 10,000 |
| 4.25% on | \$ 4,660,955 |
| 4% on | \$ 4,334,409 |

** Special Taxing Districts:

| | |
|-------------------|------------|
| Library District | \$ 96 |
| Health District | 61 |
| Kevil District | 36 |
| Watershed 1 | 35 |
| Watershed 2 | 2 |
| Symsonia Fire | (1,665) |
| Clear Springs VFD | 683 |
| Cuba VFD | 416 |
| Fancy Farm VFD | 455 |
| Farmington VFD | 497 |
| Lowes VFD | 224 |
| Melber VFD | 227 |
| North Graves VFD | 153 |
| Rescue Squad | 1,708 |
| Sedalia VFD | 838 |
| Viola VFD | 529 |
| Water Valley VFD | 535 |
| Wingo VFD | <u>378</u> |

| | |
|--|-----------------|
| Due Districts or (Refund Due Sheriff) | <u>\$ 5,208</u> |
|--|-----------------|

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 24, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Graves County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 24, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Graves County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 24, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2008 through April 24, 2009.

B. Clay Reserves

The tangible property tax assessments on clay reserves were levied as of January 1, 2008. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2008 through April 24, 2009.

C. Limestone, Sand and Gravel Reserves

The tangible property tax assessments on limestone, sand and gravel reserves were levied as of January 1, 2008. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2008 through April 24, 2009.

D. Franchise Taxes

The real and tangible property tax assessments were levied as of January 1, 2008. Franchise taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 1, 2008 through June 30, 2009.

Note 4. Interest Income

The Graves County Sheriff earned \$4,398 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of April 24, 2009, the Sheriff owed \$115 in interest to the school district and \$57 in interest to his fee account.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 24, 2009
(Continued)

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$46,976 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of April 24, 2009, the Sheriff did not owe any money in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$5,265 of advertising costs and \$6,455 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office. As of April 24, 2009 the Sheriff did not owe any money in advertising costs to the county or any in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Graves County Sheriff's Office maintains a separate account for monies received during the tax year that cannot be clearly explained, returned, and any other unknown surplus. By statute, the sheriff maintains this money for three years, after which time the money is turned over to the state treasurer. The beginning balance of this account was \$626. During the 2008 tax year, there was a receipt of \$12,652 due from prior tax years and no expenditures leaving an ending balance of \$13,278 as of April 24, 2009. The Graves County Sheriff's Office needs to deposit \$248 from the franchise tax account and \$78 from the property tax account for 2007 taxes into the escrow account. The Sheriff's Office also needs to deposit \$702 from the property tax account for 2008 taxes into the escrow account. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. No money was due the state treasurer during the 2008 tax year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John L Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009, and have issued our report thereon dated October 30, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2008 Taxes for the period April 26, 2008 through April 24, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 30, 2009

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN L DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 26, 2008 Through April 24, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310

While reviewing the Fiscal Court Order Book, auditor noted that the franchise tax settlement - 2008 had not been approved. The Sheriff should make his tax settlement with the fiscal court by September 1 each year as required by KRS 134.310. KRS 134.310 states, "The report of the state and local settlement shall be filed in the county clerk's office and approved by the county judge/executive no later than September 1 of each year." After speaking with the franchise tax bookkeeper, it was disclosed that a franchise tax settlement had not been prepared for the 2008 tax year. We recommend that the Sheriff annually prepare a franchise tax settlement in accordance with KRS 134.310. The Fiscal Court should also approve the prepared franchise tax settlement.

Sheriff's Response: None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties

The Graves County Sheriff's office lacks an adequate segregation of duties due to the same deputy preparing the daily checkout sheet, preparing the daily deposit, and posting to the receipts ledger. That same deputy also posts expenditures to the disbursements ledger, prepares and has the ability to sign checks, prepares the monthly tax reports, and performs the monthly bank reconciliation.

Segregation of duties protects employees in the normal course of performing their daily responsibilities. A proper segregation of duties should separate the preparation of the daily checkout, daily deposit, posting receipts, the preparation of checks, and posting to the disbursements ledger. Segregation of duties is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. If it is not possible to segregate all functions of the accounting process the implementation of compensating controls will help limit the severity of possible asset misappropriation and/or inaccurate financial reporting.

To adequately protect the sheriff's tax collection against the misappropriation of assets and/or inaccurate financial reporting, we recommend the Sheriff separate the duties of preparing the daily deposit from the preparation of the daily checkout. Also, the preparation of disbursement checks should be separated from the posting of disbursements to the disbursements ledger and bank reconciliation.

If these duties cannot be segregated due to a limited number of staff, then strong oversight should be provided to the employee or employees responsible for these duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff or his designee should periodically prepare the daily bank deposit and compare to the daily checkout sheet and to the receipts ledger. Any differences should be reconciled. This should be documented by dating and initialing the bank deposit, daily checkout sheet, and receipts ledger.

GRAVES COUNTY
JOHN L DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 26, 2008 Through April 24, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:
(Continued)

The Graves County Sheriff's Office Lacks An Adequate Segregation Of Duties (Continued)

- The Sheriff or his designee should compare tax payments to monthly reports. This should be documented by signing the tax payment check at the time the monthly reports are signed and initialing the monthly report for each taxing district.
- The Sheriff or his designee should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. This should be documented by initialing the tax settlement.
- The Sheriff or his designee should periodically prepare the bank reconciliation and compare this to the balance in the checkbook. Any differences should be reconciled. This should be documented by dating and initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

